

FINANCIAL STATEMENTS

**TOWNSHIP OF HADLEY
LAPEER COUNTY, MICHIGAN**

June 30, 2006

TOWNSHIP BOARD

WILLIAM DUTKO - Supervisor

CYNTHIA DALY - Clerk

LLOYD BROECKER - Treasurer

RICHARD BRANDT - Trustee

PAUL BIGLER - Trustee

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Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Township of Hadley	County Lapeer
Fiscal Year End June 30, 2006	Opinion Date December 07, 2006	Date Audit Report Submitted to State December 31, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES

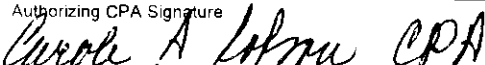
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Robson & McCallum		Telephone Number (810)664-2961	
Street Address 624 W. Nepessing Street - Suite 106		City Lapeer	State MI
		Zip 48446	
Authorizing CPA Signature 		Printed Name Carole A. Robson CPA	License Number 1101008971



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Certified Public Accountants

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Carole A. Robson, CPA • Scott A. McCallum, CPA • Members AICPA and MACPA

INDEPENDENT AUDITOR'S REPORT

Township Board
Township of Hadley
4293 Pratt Road
Hadley, Michigan 48440

We have audited the accompanying financial statements of the governmental activities, and the aggregate remaining fund information of Hadley Township (the "Township"), Hadley, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the Township's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Bulletin for Audits of Local Units of Government in Michigan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Township of Hadley at June 30, 2006 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and the budgetary comparison information are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hadley Township's basic financial statements. The accompanying other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Robson & McCallum

Robson and McCallum
December 07, 2006

TOWNSHIP OF HADLEY
LAPEER COUNTY
LAPEER, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

As the Township Board of the Hadley Township, we offer readers of the Township's financial statements this narrative overview and analysis of the Township's financial activities of Hadley Township for the fiscal year ended June 30, 2006.

Financial Highlights

The assets of Hadley Township exceeded its liabilities at the close of the most recent fiscal year by \$2,974,258, of this amount, \$1,162,197 may be used to meet the Township's ongoing obligations to citizens and creditors.

As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$1,047,375 an increase of \$185,030 in comparison with the prior year.

At the end of the current fiscal year, unreserved fund balance for the General Fund was \$620,878, or 132% of total general fund expenditures before equipment purchases. Unreserved fund balance for the Fire Fund was \$252,552, or 314% of total Fire Fund expenditures before equipment purchases. Unreserved fund balance for the First Responders Fund was \$173,945, or 340% of total First Responders Fund expenditures.

The Township's total liabilities decreased by \$97,276 during the current fiscal year. The key factor in this decrease is note principle reduction of \$90,000 - the balance due for the Township office building.

Overview of the Financial Statements

Using this Annual Report

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements comprise three components: (1) government wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the Township's finances, in a similar to a private-sector business.

The Statement of Net Assets presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as useful indicators of whether the financial position of the Township is improving or deteriorating.

The Statement of Activities presents information showing how the Township's net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (**governmental activities**) from other functions that are intended to recover all of a significant portion of their costs through user fees and charges (**business-type activities**). The governmental activities of the Township include general government, public safety, road projects, health, and culture/recreation.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into two categories: governmental funds and fiduciary funds:

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Hadley Township maintains three (3) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Fire Fund and First Responders Fund which are considered to be major funds. The Township adopts an annual appropriations budget for its general fund and special revenue funds. A budgetary comparison statement has been provided for the general fund and other major funds to demonstrate compliance with this budget.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Township's own programs.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 8 through 13 of this report.

Capital Asset and Debt Administration

Capital Assets. The Township's investment in capital assets for its governmental and business type activities as of June 30, 2006 is \$2,357,061 (net of accumulated depreciation). As noted earlier, net assets may serve over time as a useful indicator of the government's financial position. In the case of Hadley Township, assets exceeded liabilities by \$2,974,258 at the close of the most recent fiscal year. The most significant portion of the Township's net assets (80%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Township used these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The total increase in the Township's investment in capital assets for the current fiscal year was \$53,235.

Long-term debt. At the end of the current fiscal year, the Township had total unsecured debt outstanding of \$540,000. Of this amount, 100% comprises debt backed by the full faith and credit of the government. Additional information on the Township's long-term debt can be found in the notes on page 13.

Government-Wide Financial Analysis

	<u>GOVERNMENTAL ACTIVITIES</u>	
	<u>2006</u>	<u>2005</u>
<u>Assets</u>		
Current and Other Assets	\$1,205,582	\$1,025,451
Capital Assets	<u>2,357,061</u>	<u>2,424,838</u>
Total Assets	<u>\$3,562,643</u>	<u>\$3,450,289</u>
<u>Liabilities</u>		
Long-Term Liabilities	\$ 450,000	\$ 540,000
Other Liabilities	<u>138,385</u>	<u>145,681</u>
Total Liabilities	<u>\$ 588,385</u>	<u>\$ 685,681</u>
<u>Net Assets</u>		
Invested in Capital Assets	\$1,812,061	\$1,794,838
Restricted for Health and Public Safety	426,467	339,055
Unrestricted/Undesignated	<u>735,730</u>	<u>630,715</u>
Total Net Assets	<u>\$2,974,258</u>	<u>\$2,764,608</u>

The following table shows the changes of the net assets as of June 30, 2006 to June 30, 2005

	<u>GOVERNMENTAL ACTIVITIES</u>	
	<u>2006</u>	<u>2005</u>
Program Revenues		
Charges for Services	\$ 41,942	\$ 47,644
Capital Grants and Contributions	14,600	134,525
General Revenues		
Property Taxes	403,902	396,997
State Shared Revenues	333,315	318,793
Fees and Licenses	6,630	6,662
Unrestricted Investment Earnings	<u>42,460</u>	<u>34,112</u>
Total Revenues	<u>\$ 842,849</u>	<u>\$ 938,733</u>
Program Expenses		
General Government	\$ 310,908	\$ 310,413
Public Safety	142,069	198,936
Public Works	68,044	112,347
Health and Welfare	63,483	85,865
Planning	14,137	25,257
Parks and Recreation	7,937	5,597
Library	3,562	4,566
Interest on Long-term Debt	<u>23,059</u>	<u>26,299</u>
Total Expenses	<u>\$ 633,199</u>	<u>\$ 769,280</u>
Change in Net Assets	<u>\$ 209,650</u>	<u>\$ 169,453</u>

At the end of the current fiscal year, the Township is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental activities. The same situation held true for the prior fiscal year.

Economic Factors and Next Year's Budget and Rates

State-shared revenues are expected to remain about the same in the 2006-2007 fiscal year unless unemployment increases. The Township's millage rate was again reduced by the Headlee Amendment rollback. These factors were considered in preparing the Township's budget for the 2006-2007 fiscal year. The Township has presented a balanced budget in the 2006-2007 fiscal year budget.

Request for Information

This financial report is intended to provide a general overview of Hadley Township's finances for all those with an interest in the Township's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Supervisor of Hadley Township at 4293 Pratt Road, PO Box 227, Hadley, MI, 48440.

STATEMENT OF NET ASSETS
TOWNSHIP OF HADLEY - LAPEER COUNTY, MICHIGAN
June 30, 2006

GOVERNMENTAL ACTIVITIES

ASSETS

Current Assets:

Cash and Cash Equivalents

\$ 1,093,307

Receivables:

Other Governments

\$ 109,822

Taxes

1,806

Township Officials

647

112,275

Total Current Assets

\$ 1,205,582

Capital Assets:

Land

\$ 274,007

Buildings and Improvements

1,672,849

Equipment

396,323

Vehicles

686,574

Total Capital Assets

\$ 3,029,753

Less: Accumulated Depreciation

(672,692)

Net Capital Assets

2,357,061

Total Assets

\$ 3,562,643

LIABILITIES

Accounts Payable

\$ 14,050

Deposits

29,978

Due to Others

4,357

Current Portion of Long-Term Debt

90,000

Non-Current Liabilities

National City Note

450,000

Total Liabilities

\$ 588,385

NET ASSETS

\$ 2,974,258

NET ASSETS - DETAIL

Invested in Capital Assets - net of debt

\$ 1,812,061

Restricted for Health and Public Safety

426,467

Unrestricted/Undesignated

735,730

Total Net Assets

\$ 2,974,258

BALANCE SHEET
TOWNSHIP OF HADLEY - LAPEER COUNTY, MICHIGAN
June 30, 2006

	<u>GENERAL FUND</u>	<u>FIRE FUND</u>	<u>FIRST RESPONDERS</u>	<u>TOTAL</u>
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 667,396	\$ 252,220	\$ 173,691	\$ 1,093,307
Taxes Receivable	725	699	382	1,806
Due From Township Officials	647			647
Total Assets	<u>\$ 668,768</u>	<u>\$ 252,919</u>	<u>\$ 174,073</u>	<u>\$ 1,095,760</u>
<u>LIABILITIES</u>				
Accounts Payable	\$ 13,555	\$ 367	\$ 128	\$ 14,050
Deposits	29,978			29,978
Due to Other Funds	4,357			4,357
Total Liabilities	<u>\$ 47,890</u>	<u>\$ 367</u>	<u>\$ 128</u>	<u>\$ 48,385</u>
<u>FUND EQUITY</u>				
Undesignated - Fund Equity	<u>\$ 620,878</u>	<u>\$ 252,552</u>	<u>\$ 173,945</u>	<u>\$ 1,047,375</u>
Total Liabilities and Fund Equity	<u>\$ 668,768</u>	<u>\$ 252,919</u>	<u>\$ 174,073</u>	<u>\$ 1,095,760</u>

RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
TOWNSHIP OF HADLEY - LAPEER COUNTY, MICHIGAN
JUNE 30, 2006

Fund Balances - Total Governmental Funds	\$ 2,974,258
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Amounts reported for Governmental Activities in Statement of
Net Assets are different because:

Capital assets used in governmental activities are not financial
resources and therefore; are not reported in the governmental funds

Governmental Capital Assets	\$ 3,029,753	
Less: Accumulated Depreciation	<u>672,692</u>	(2,357,061)

Receivables recognized using the full accrual method of accounting that are not considered current financial resources for Governmental Fund Accounting		(109,822)
---	--	-----------

Long-Term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		<u>540,000</u>
---	--	----------------

Change in Net Assets of Governmental Fund Balances	<u>\$ 1,047,375</u>
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STATEMENT OF ACTIVITIES
TOWNSHIP OF HADLEY - LAPEER COUNTY, MICHIGAN
Year Ended June 30, 2006

		CHARGES FOR SERVICES	OPERATING GRANT REVENUE	NET(EXPENSE) REVENUE AND CHANGES IN NET ASSETS PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES
<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>			
General Government	\$ (310,908)	\$ 41,942	\$ 14,600	\$ (254,366)
Public Safety	(142,069)			(142,069)
Public Works	(68,044)			(68,044)
Public Health	(63,483)			(63,483)
Planning	(14,137)			(14,137)
Parks and Recreation	(7,937)			(7,937)
Library	(3,562)			(3,562)
Interest on Long-Term Debt	(23,059)			(23,059)
Total Primary Government Activities	<u>\$ (633,199)</u>	<u>\$ 41,942</u>	<u>\$ 14,600</u>	\$ (576,657)
<u>GENERAL REVENUES</u>				
Property Taxes				\$ 403,902
State Shared Revenue				333,315
Fees and Licenses				6,630
Unrestricted Investment Earnings				<u>42,460</u>
Change in Net Assets				\$ 209,650
Net Assets - July 1, 2005				<u>2,764,608</u>
Net Assets - June 30, 2006				<u>\$ 2,974,258</u>

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TOWNSHIP OF HADLEY - LAPEER COUNTY, MICHIGAN
Year Ended June 30, 2006

	GENERAL FUND	FIRE FUND	FIRST RESPONDER FUND	TOTAL GOVERNMENT FUND
<u>REVENUES</u>				
Property Taxes	\$ 171,179	\$ 149,779	\$ 82,944	\$ 403,902
State Grant	14,600			14,600
State Shared Revenue	330,918			330,918
Fees and Licenses	6,630			6,630
Charges for Services	20,837			20,837
Rent	17,645			17,645
Interest	30,191	6,220	6,049	42,460
Other	<u>3,460</u>			<u>3,460</u>
Total Revenues	<u>\$ 595,460</u>	<u>\$ 155,999</u>	<u>\$ 88,993</u>	<u>\$ 840,452</u>
<u>CHARGES TO APPROPRIATIONS (Outflows)</u>				
Current:				
General Government	\$ 261,218	\$ -0-	\$ -0-	\$ 261,218
Public Safety		80,402		80,402
Public Works	58,389			58,389
Public Health	13,965		49,518	63,483
Planning	14,137			14,137
Parks and Recreation	7,937			7,937
Library	3,562			3,562
Capital Outlay	25,605	26,043	1,587	53,235
Debt Service	<u>113,059</u>			<u>113,059</u>
Total Charges to Appropriations	<u>\$ 497,872</u>	<u>\$ 106,445</u>	<u>\$ 51,105</u>	<u>\$ 655,422</u>
Revenues Over (Under) Expenditures	\$ 97,588	\$ 49,554	\$ 37,888	\$ 185,030
<u>FUND BALANCE - July 1</u>	<u>523,290</u>	<u>202,998</u>	<u>136,057</u>	<u>862,345</u>
<u>FUND BALANCE - June 30</u>	<u><u>\$ 620,878</u></u>	<u><u>\$ 252,552</u></u>	<u><u>\$ 173,945</u></u>	<u><u>\$ 1,047,375</u></u>

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES**
TOWNSHIP OF HADLEY - LAPEER COUNTY, MICHIGAN
Year ended June 30, 2006

Net change in fund balance -	
Total Governmental Funds	\$ 209,650

Amounts reported for Governmental Activities
in the Statement of Net Assets are different
because:

Difference in revenue using the full accrual method of accounting that is not required for governmental fund accounting.	(2,397)
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Governmental Funds report capital outlays as expenditures. In the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	67,777
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Governmental Funds report the repayment of debt as an expenditure. The repayment of debt reduces the liability in the Statement of Net Assets.	<u>(90,000)</u>
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Change in Net Assets of Governmental Funds	<u>\$ 185,030</u>
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NOTES TO THE FINANCIAL STATEMENTS
TOWNSHIP OF HADLEY - LAPEER COUNTY, MICHIGAN
June 30, 2006

The Township of Hadley is a general law Township operating under Article 7, Section 17 of the Michigan Constitution of 1963 and under the revised statutes of 1846, as amended. Hadley Township is governed by a Board consisting of the Supervisor, Clerk, Treasurer and two Trustees. The Township provides its residents with public safety (police, fire, inspections, and planning and zoning), highways and streets, public improvements, parks and recreation and general administrative services.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

SCOPE OF REPORTING ENTITY:

In accordance with the provisions of the Governmental Accounting Standards Board Statement #14, "Defining the Governmental Report Entity", the financial statements of the Township of Hadley contain all the Township's executive or legislative branches. Control by or dependence on the Township was determined on the basis of appointment of governing authority, budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the Township, obligations of the Township to finance any deficits that may occur, receipt of significant subsidies from the Township, disposition of surplus funds, and the scope of public service.

JOINT OPERATIONS:

Greenwood Cemetery - Hadley Township has entered into a cost sharing arrangement with Elba Township for the maintenance of Greenwood Cemetery, located in Hadley Township. Hadley Township paid \$9,000 towards maintenance for the fiscal year ended June 30, 2006. Separate financial statements are available at Hadley Township offices.

BASIS OF PRESENTATION

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Township. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include: (1) charges to customers or applicants whose purchase, use or directly benefit from goods, services, or privileges provided by a given program; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

FUND FINANCIAL STATEMENTS:

The Township segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The accounts of the government are organized on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. The financial activities of the Township are recorded in separate funds, categorized as follows:

GOVERNMENTAL FUNDS:

General Fund - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments for major capital projects) that are legally restricted to expenditures for specified purposes. The Fire Fund and the First Responder Fund are Special Revenue Funds.

Fiduciary Funds - Fiduciary Funds include expendable trust and nonexpendable trust and agency funds. The measurement focus of the expendable trust fund is the same as for governmental funds. The measurement focus of the nonexpendable trust is based upon determination of net income, financial position and changes in financial position. The generally accepted accounting principles applicable to nonexpendable trust and agency funds are those similar to businesses in the private sector.

Agency funds are purely custodial (assets equal liabilities) and thus, do not involve measurement of results of operations and are used to account for assets held by the Township as an agent for individuals, private organizations, other governments and/or other funds.

NOTES TO THE FINANCIAL STATEMENTS
TOWNSHIP OF HADLEY - LAPEER COUNTY, MICHIGAN
June 30, 2006

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

CASH EQUIVALENTS:

For purposes of the statement of cash flows, demand deposits and short-term investments with a maturity date of three months or less when acquired, are considered to be cash equivalents.

MEASUREMENT FOCUS/BASIS OF ACCOUNTING

Measurement Focus refers to what is being measured, basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets under the accrual basis of accounting.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period, generally collected within 60 days of the end of the current fiscal period.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for services, interest income, and intergovernmental revenues. Sales taxes collected and held by the State at year-end on behalf of the Township are also recognized as revenue. All other Governmental Fund Type revenues are recognized when received.

CASH AND INVESTMENTS:

Deposits are carried at cost. Deposits are in one financial institutions in the Township's name. Michigan Compiled Laws, Section 129.91, authorizes the local unit to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations. Investments can also be made in bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States, which are guaranteed as to principal and interest by the United States, including securities issued by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the three highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase and which involve no more than 50 percent of any one fund; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money.

PROPERTY TAXES:

Property taxes are levied each December 1st on the State equalized value of property located in the Township as of the preceding December. Taxable values are based on assessed values which are established annually and equalized by the State at an estimated 50% of current market value.

The 2005 taxable value of the Township totaled \$199,600,747; ad valorem taxes levied consisted of .8571 mills for operating purposes, .7508 mills for fire protection, and .4158 for first responders.

The Township bills and collects Township property taxes and also taxes for the county and school districts within its boundaries. Collections and remittances of the county and school taxes are accounted for in the Current Tax Collection Fund. Township property tax revenues are recognized as revenues in the fiscal year levied.

Property taxes levied on December 1st are payable without penalty through February 14th. As of March 1st, unpaid taxes attach as an enforceable lien on the property. Delinquent taxes are purchased by the County of Lapeer.

NOTES TO THE FINANCIAL STATEMENTS
TOWNSHIP OF HADLEY - LAPEER COUNTY, MICHIGAN
June 30, 2006

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

CAPITAL ASSETS:

Capital assets which include property, plant and equipment, are reported in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated Assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

<u>Governmental</u>		
Buildings and Improvements	5 - 50 Years	
Equipment	5 - 20 Years	
Vehicles	5 - 20 Years	

NET ASSETS:

Net Assets represent the difference between assets and liabilities. Net Assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Township or through external restrictions imposed by creditors, grantors, or laws or regulations of governments.

USE OF ESTIMATES:

The preparation of basic financial statements in conformance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

BUDGETARY AND LEGAL COMPLIANCE:

BUDGETARY DATA:

The following procedures were completed in establishing the budgetary data reflected in the financial statements:

The modified accrual based budget was legally enacted on a departmental (activity) basis through the passage of a resolution for the general fund, by total for the fire fund and the first responder fund.

The budget was used by the Township Board as a management tool during the year for all budgetary funds. Any revisions that altered the total expenditures of any department were approved by the Township Board.

Budget appropriations lapse at year end, except for approved contracts and certain federal grants which are appropriated on a contract (grant) or entitlement length basis.

The original budget was amended during the year in compliance with applicable State laws. The budget to actual expenditures in the financial statements represent the final budget as amended by the Township Board.

STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a departmental basis.

Operating budgets were overexpended as follows:

	<u>FINAL</u> <u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Supervisor	\$ 35,400	\$ 35,526	\$ (126)
Clerk	35,000	35,013	(13)
Public Works	54,596	58,389	(3,793)

NOTES TO THE FINANCIAL STATEMENTS
TOWNSHIP OF HADLEY - LAPEER COUNTY, MICHIGAN
June 30, 2006

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

CASH AND INVESTMENTS:

The Township's deposits are in accordance with statutory authority. At June 30, 2006, the balance sheet carrying amount of cash deposits was \$1,093,307. The bank balance as of June 30, 2006 was \$1,105,963 of which \$100,000 was covered by FDIC insurance. Cash deposits are classified in risk category number three.

The combined balance sheet carrying amount of cash, cash equivalents, and investments consists of the following:

	<u>CASH AND CASH EQUIVALENTS</u>
Bank Deposits (Checking, Savings, and Time Certificate)	\$ 679,083
Mutual Fund (Government)	<u>414,224</u>
Total Reported on Balance Sheet	<u>\$ 1,093,307</u>

For the fiscal year ended June 30, 2006 the Township invested \$414,224 in governmental obligation money market funds. These investments are considered cash equivalents and are included with cash deposits listed above for the total cash and cash equivalent of \$1,093,307.

COMMON CHECKING ACCOUNT:

The cash balances reported in each fund as of June 30, 2006 are as follows:

<u>FUND</u>	<u>CHECKING</u>
General Fund	\$ 202,390
Fire Fund	252,220
First Responder Fund	<u>94,349</u>
Total	<u>\$ 548,959</u>

CUSTODIAL CREDIT RISK

In the event of a bank failure, the Township's deposits may be recovered. Neither state law nor the Township's investment policy requires consideration of custodial credit risk. The bank balance exposed to custodial credit risk is:

	<u>BANK BALANCE</u>
Insured by F.D.I.C	\$ 100,000
Uninsured and Uncollateralized	<u>579,083</u>
Total Reported on Balance Sheet	<u>\$ 679,083</u>

DUE FROM TOWNSHIP OFFICIALS

The Township provides a group health insurance plan for employees who elect to participate but does not cover any of the costs. The Township pays the premium and the employees reimburse the Township the following month.

RISK FINANCING:

The Township is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and automobile accidents. To cover these risks, the Township participates in the Michigan Municipal Liability and Property Pool. The Township pays an annual premium for this coverage.

The Michigan Municipal Liability and Property Pool has effectively retained all risk. The Township has maintained the same level of coverage as compared to the prior year. No instances of settlements exceeding insurance coverage for the past three years have been noted.

PENSION PLAN:

The Township has adopted the Manufacturer's Life insurance Company's prototype defined contribution plan. Initially effective, June 1, 1969, the plan is 100% funded by the Township. The plan is available to all elected officials and hourly employees who work more than 20 hours per week. Employer contributions are 20% of compensation, plus plan costs. In addition, each employee can elect to make voluntary after-tax contributions of 1% to 5% of compensation.

During the year, the Township's required and actual contributions were \$17,675 which was 20% of its current-year covered payroll. No pension provision changes occurred during the year that affected the required contributions to be made by the Township or its employees.

NOTES TO THE FINANCIAL STATEMENTS
TOWNSHIP OF HADLEY - LAPEER COUNTY, MICHIGAN
June 30, 2006

DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS:

CAPITAL ASSETS:

CAPITAL ASSET ACTIVITY OF THE PRIMARY GOVERNMENT FOR THE CURRENT YEAR AS FOLLOWS:

	BALANCE 7/01/05	ADDITIONS	DEDUCTIONS	BALANCE 6/30/06
Capital Assets Not Being Depreciated				
Land	\$ 274,007	\$ -0-	\$ -0-	\$ 274,007
Capital Assets Being Depreciated				
Building and Improvements	\$1,666,633	\$ 6,215	\$ -0-	\$ 1,672,848
Equipment	410,442	47,021	61,139	396,324
Vehicles	719,587		33,013	686,574
Total Capital Assets Being Depreciated	<u>\$2,796,662</u>	<u>\$ 53,236</u>	<u>\$ 94,152</u>	<u>\$ 2,755,746</u>
Less Accumulated Depreciation	<u>\$ 645,832</u>	<u>\$ 121,012</u>	<u>\$ 94,152</u>	<u>\$ 672,692</u>
Net Capital Assets Being Depreciated	<u>2,150,830</u>	<u>67,776</u>	<u>-0-</u>	<u>2,083,054</u>
Governmental Activity Assets, Net	<u>\$2,424,837</u>	<u>\$ 67,776</u>	<u>\$ -0-</u>	<u>\$ 2,357,061</u>

Depreciation expense charged as direct expense to programs of the primary government:

General Government	\$ 49,690
Public Safety	61,043
Public Health	10,279
	<u>\$ 121,012</u>

GROUND LEASE AGREEMENT:

On November 1, 1995, the Township entered into a five year, \$600 per month, ground lease agreement with Ameritech. Providing Ameritech is not in default, they have the option to extend the term of the lease for four additional five year periods at the following rates:

Years 1 through 5	\$ 600	\$ 7,200
Years 6 through 10	800	9,600
Years 11 through 15	900	10,800
Years 16 through 20	1,000	12,000

GENERAL LONG-TERM DEBT:

Unsecured note dated 06/01/2002 in the amount of \$900,000 to finance the Township Hall, principle payments of \$90,000 plus interest at 3.61% are due on June 1st of each year

BALANCE 06/30/06
<u>\$ 540,000</u>

The annual principle and interest requirements through maturity as of June 30, 2006 are as follows:

06/01/2007	\$109,764.75
06/01/2008	106,515.75
06/01/2009	103,176.50
06/01/2010	99,882.38
06/01/2011	96,588.25
06/01/2012	<u>93,303.15</u>
Total	<u>\$609,230.78</u>

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE -BUDGET AND ACTUAL - GENERAL FUND
TOWNSHIP OF HADLEY - LAPEER COUNTY, MICHIGAN
Year Ended June 30, 2006**

	<u>BUDGETED AMOUNTS</u>			<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>FAVORABLE</u>
	<u>BUDGET</u>	<u>BUDGET</u>		<u>(UNFAVORABLE)</u>
<u>FUND BALANCE</u> - July 1, 2005	\$ 523,290	\$ 523,290	\$ 523,290	\$ -0-
<u>RESOURCES (Inflows)</u>				
Property Taxes	174,000	174,000	171,179	(2,821)
State Shared Revenue	330,000	330,000	330,918	918
State Grant			14,600	14,600
Fees and Licenses	6,000	6,000	6,630	630
Charges for Services	15,000	15,000	20,837	5,837
Rent	17,000	17,000	17,645	645
Interest	6,000	6,000	30,191	24,191
Other	1,000	1,000	3,460	2,460
Amounts Available for Appropriations	<u>\$1,072,290</u>	<u>\$1,072,290</u>	<u>\$1,118,750</u>	<u>\$ 46,460</u>
<u>CHARGES TO APPROPRIATIONS (Outflows)</u>				
Current:				
Trustees	\$ 11,000	\$ 11,948	\$ 11,635	\$ 313
Supervisor	35,000	35,400	35,526	(126)
Elections	16,000	10,500	4,985	5,515
Assessor	34,000	38,100	35,344	2,756
Clerk	35,000	35,000	35,013	(13)
Board of Review	3,500	3,500	2,343	1,157
Treasurer	38,000	38,052	36,534	1,518
Township Hall	50,000	22,000	13,087	8,913
Cemetery	10,000	18,500	9,000	9,500
Township Office	<u>75,500</u>	<u>180,702</u>	<u>77,751</u>	<u>102,951</u>
Total General Government	<u>\$ 308,000</u>	<u>\$ 393,702</u>	<u>\$ 261,218</u>	<u>\$ 132,484</u>
Public Health	\$ 14,000	\$ 14,000	\$ 13,965	\$ 35
Public Safety	15,000	15,000	14,137	863
Planning		400		400
Public Works	47,000	54,596	58,389	(3,793)
Parks and Recreation	15,000	43,000	7,937	35,063
Library	6,000	6,000	3,562	2,438
Capital Outlay	30,000	30,000	25,605	4,395
Debt Service:				
Principal	90,000	90,000	90,000	-0-
Interest	<u>24,000</u>	<u>24,000</u>	<u>23,059</u>	<u>941</u>
Total Charges to Appropriations	<u>\$ 549,000</u>	<u>\$ 670,698</u>	<u>\$ 497,872</u>	<u>\$ 172,826</u>
<u>FUND BALANCE</u> - June 30, 2006	<u>\$ 523,290</u>	<u>\$ 401,592</u>	<u>\$ 620,878</u>	<u>\$ 219,286</u>

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE -BUDGET AND ACTUAL - FIRE FUND
TOWNSHIP OF HADLEY - LAPEER COUNTY, MICHIGAN
Year Ended June 30, 2006

	<u>BUDGETED AMOUNTS</u>			<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>FAVORABLE</u>
	<u>BUDGET</u>	<u>BUDGET</u>		<u>(UNFAVORABLE)</u>
<u>FUND BALANCE</u> - July 1, 2005	\$ 202,998	\$ 202,998	\$ 202,998	\$ -0-
<u>RESOURCES (Inflows)</u>				
Property Taxes			149,779	
Interest			6,220	
Amounts Available for Appropriations	<u>\$ 353,998</u>	<u>\$ 353,998</u>	<u>\$ 358,997</u>	<u>\$ 4,999</u>
<u>CHARGES TO APPROPRIATIONS (Outflows)</u>				
Salaries and Wages	\$ -0-	\$ -0-	\$ 42,160	\$ -0-
Supplies			6,788	
Telephone			1,518	
Insurance			16,190	
Public Utilities			3,591	
Repairs and Maintenance			5,534	
Miscellaneous			1,281	
Education Training			3,340	
Capital Outlay			26,043	
Total Charges to Appropriations	<u>\$ 128,600</u>	<u>\$ 128,600</u>	<u>\$ 106,445</u>	<u>\$ 22,155</u>
<u>FUND BALANCE</u> - June 30, 2006	<u>\$ 225,398</u>	<u>\$ 225,398</u>	<u>\$ 252,552</u>	<u>\$ 27,154</u>

(Budget is adopted by total appropriations)

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE -BUDGET AND ACTUAL - FIRST RESPONDERS
TOWNSHIP OF HADLEY - LAPEER COUNTY, MICHIGAN
Year Ended June 30, 2006

	<u>BUDGETED AMOUNTS</u>			<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>FAVORABLE</u>
	<u>BUDGET</u>	<u>BUDGET</u>		<u>(UNFAVORABLE)</u>
<u>FUND BALANCE</u> - July 1, 2005	\$ 136,057	\$ 136,057	\$ 136,057	\$ -0-
<u>RESOURCES (Inflows)</u>				
Property Taxes	83,000	83,000	82,944	
Interest			6,049	
Amounts Available for Appropriations	<u>\$ 219,057</u>	<u>\$ 219,057</u>	<u>\$ 225,050</u>	<u>\$ 5,993</u>
<u>CHARGES TO APPROPRIATIONS (Outflows)</u>				
Wages	\$ -0-	\$ -0-	\$ 31,068	\$ -0-
Uniforms			1,709	
Supplies			5,069	
Telephone			956	
Printing and Publishing			559	
Insurance			3,192	
Utilities			2,228	
Repairs and Maintenance			2,578	
Education and Training			1,749	
Miscellaneous			410	
Capital Outlay			1,587	
Total Charges to Appropriations	<u>\$ 75,900</u>	<u>\$ 75,900</u>	<u>\$ 51,105</u>	<u>\$ 24,795</u>
<u>FUND BALANCE</u> - June 30, 2006	<u>\$ 143,157</u>	<u>\$ 143,157</u>	<u>\$ 173,945</u>	<u>\$ 30,788</u>

(Budget is adopted by total appropriations)



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Hadley Township Board
PO Box 227
Hadley, Michigan 48440

Dear Board Members:

We have audited the basic financial statements for Hadley Township (the "Township"), for the year ended June 30, 2006 and have reported our findings under separate cover. Professional standards require that we communicate certain matters to you related to our audit. These are provided below:

Our responsibility under generally accepted auditing standards - is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the basic financial statements are free of material misstatement, whether caused by error or by fraud. The concept of reasonable assurance indicates that we did not test all transactions; therefore, there is a risk that material errors, fraud, or illegal acts may have occurred that we did not detect in our audit.

Budget Amendments - last year our letter included a recommendation that all projected expenditures through the end of the fiscal year be included in the budget. For the year ended June 30, 2006, not all of the June charges were included in the appropriations which resulted in an overexpended budget for the General Fund. The entering of vendor invoices into the accounting records as they are incurred will facilitate the matching of expenditures to appropriations. When the Board approves County Road Commission work, the approved amount should be in the appropriations. If the work is not completed within the fiscal year, the incomplete approved work would be reappropriated the following year.

Thank you for the opportunity to serve as the Township's auditor. We are available to answer questions and otherwise assist in implementing the foregoing recommendation, the appropriateness of accounting policies, and the application of those policies.

Robson & McCallum

Robson and McCallum
December 07, 2006